

A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Accounting Services Division

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Status Review

# **Colorado City Unified School District No. 14**

As of February 16, 2007

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**Debra K. Davenport**  
Auditor General

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AUDITOR GENERAL

**STATE OF ARIZONA**  
**OFFICE OF THE**  
**AUDITOR GENERAL**

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

July 26, 2007

Governing Board  
Colorado City Unified School District No. 14  
P.O. Box 309  
Colorado City, AZ 86021-0309

Members of the Board:

In our November 21, 2005, compliance review report, we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR) for the year ended June 30, 2004. The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of February 16, 2007. Our review covered the deficiencies we had previously communicated to management and deficiencies included in the District's June 30, 2005, audit reports and USFR Compliance Questionnaire. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

We also reviewed the District's June 30, 2006, audit reports and USFR Compliance Questionnaire, which we received subsequent to the completion of our February 2007 status review. In those reports, the District's auditors did not express an opinion on the District's financial statements and expressed substantial doubt about the District's ability to continue as a going concern.

We acknowledge the District's progress in taking action to correct some of its deficiencies. However, based on the number and nature of the remaining deficiencies noted in our status review and our review of the District's June 30, 2006, audit reports and USFR Compliance Questionnaire, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's noncompliance and requesting that appropriate action be taken as prescribed by Arizona Revised Statutes §15-272. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Governing Board  
Colorado City Unified School District No. 14  
July 26, 2007  
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Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport  
Auditor General

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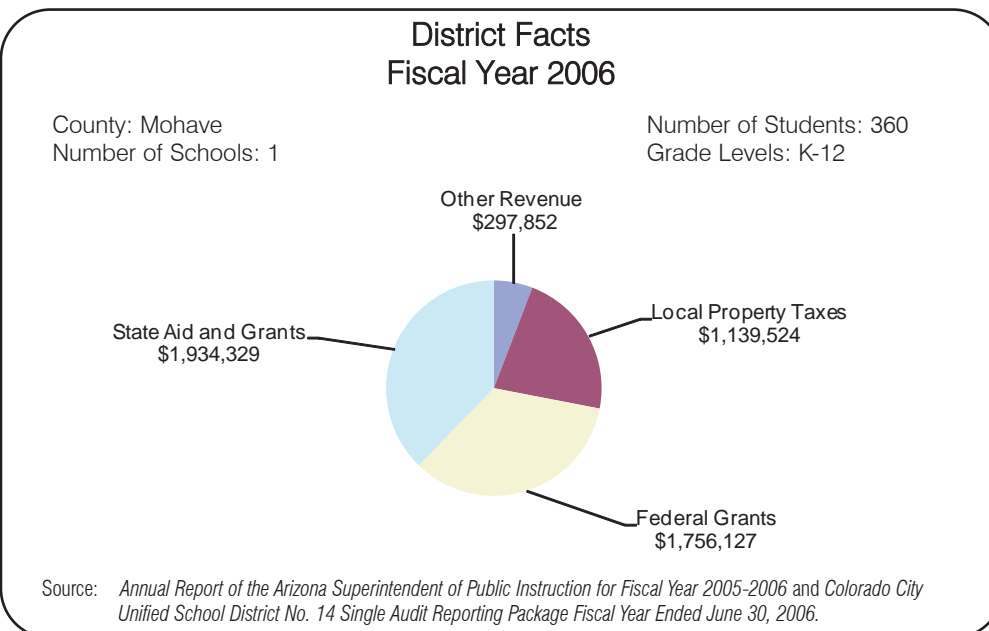
# INTRODUCTION

Colorado City Unified School District No. 14 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$5.1 million it received in fiscal year 2006 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, and our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. In addition, for the year ended June 30, 2006, the District's auditors did not express an opinion on the District's financial statements and expressed substantial doubt about the District's ability to continue as a going concern.

We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



## The District should improve its financial condition

The District's auditors expressed substantial doubt about the District's ability to continue as a going concern.

The District has a responsibility to its students, their parents, and the community to provide a quality education that meets state standards. The District receives funding from the state and federal governments, as well as local property taxes, in order to provide this education. However, the District's financial condition at June 30, 2006, raised significant concern as to whether the District could continue to provide an education to its students. Specifically, the District reported negative unrestricted net assets of almost \$738,000 on its government-wide statements and a negative fund balance in the Maintenance and Operation (M&O) Fund of almost \$1.2 million on its fund statements. As a result, the District's auditors expressed substantial doubt about the District's ability to continue its operations.

## Recommendations

To help ensure that the District can provide an education to its students, the District should improve its financial condition. Specifically, the District should continue taking action to pay off liabilities, keep expenditures within budget limits, and eliminate all unnecessary expenditures.

## The District should maintain conflict of interest files

The District did not document conflicts of interest for employees.

The District is responsible for ensuring that employees and board members comply with Arizona Revised Statutes (A.R.S.) Title 38, Chapter 3, Article 8, Conflict of Interest of Officers and Employees. This requires that any district board member or employee (full-time, part-time, or on contract basis) who has or whose relative has a substantial interest in any contract, sale, purchase, service, or decision of a school district must disclose this interest. The interest must be disclosed in writing and retained in a file exclusively for that purpose with the District. This file is a public record. In addition, according to statute, a board member or employee who has such a conflict must refrain from participating in or voting on such a matter. However, the District did not fulfill its responsibility because it did not inform employees regarding the conflict of interest requirements and did not require employees with conflicts to file conflict of interest statements.



## Recommendations

The District should require all board members and employees who have or whose relative has a substantial interest in any contract, sale, purchase, service, or decision of a school district to file a conflict of interest statement. A.R.S. §38-502(9) defines a relative as a parent, child, sister, brother, spouse, grandchild, grandparent, mother-in-law, father-in-law, brother-in-law, sister-in-law, or stepchild. If an employee supervises a relative, the conflict of interest statement should describe the relationship and the supervisor must refrain from participating in decisions or contracts related to that relative, such as approving pay increases. See A.R.S. §§38-502 and 38-503.

### The District should improve controls over purchasing and expenditures

The District spends public monies to purchase goods and services, so it is essential that the District follow the School District Procurement Rules and USFR guidelines designed to help ensure that the District receives the best possible value for the public monies it spends, and that its expenditures are appropriate, approved, and adequately supported. However, the District did not always follow such procedures. Specifically, the District did not always issue competitive sealed bids or proposals for purchases that individually, or in the aggregate, exceeded the competitive purchasing threshold. In addition, prior to issuing requests for proposals, the District's Governing Board did not determine in writing that the use of competitive sealed bids was either not practicable or advantageous to the District, and the District did not include all required information in its requests for proposals. Also, the District did not perform due-diligence procedures for purchases made through a purchasing cooperative and did not always obtain written price quotations for purchases that required them.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Further, the District did not always prepare purchase orders prior to ordering goods and services and did not always retain receiving reports. In addition, the District did not always classify expenditures in accordance with the USFR Chart of Accounts.

School District  
Procurement Rules  
provide the requirements  
for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

Guidelines for written price quotations can be found on USFR pages VI-G-8 and 9 and in USFR Memorandum No. 213.

## Recommendations

To strengthen controls over competitive purchasing and expenditures and to comply with School District Procurement Rules and USFR guidelines, the District should:

- Determine whether to issue invitations for bids (IFBs) or requests for proposals (RFPs) by analyzing the known requirements for an item or a collection of items that, in the aggregate, may result in purchases above the competitive purchasing threshold.
- Issue IFBs or RFPs, as appropriate, for purchases of construction, materials, or services that exceed \$33,689.
- Obtain written determinations from the Governing Board that issuing IFBs is either not practicable or not advantageous to the District before issuing RFPs.
- Include all information required by the School District Procurement Rules in the IFBs and RFPs and retain all documents necessary to demonstrate compliance.
- Review documentation from each purchasing cooperative for at least a sample of the contracts that the District wishes to use to ensure that the contracts were bid in accordance with the School District Procurement Rules. Document the due-diligence procedures performed and the results to support participation in the cooperative.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Record all expenditure transactions in accordance with the USFR Chart of Accounts §III.
- Prepare purchase orders before goods and services are ordered, and prepare receiving reports for goods and services received, except exempted items.

# The District should maintain accurate capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have an accurate list of these assets to ensure they are properly identified and accounted for. However, the District did not accomplish this objective. Specifically, the District's capital assets and stewardship lists included items that could not be located on the District's premises. In addition, the District's capital assets list did not include all required information, and documentation to support the assets' costs recorded on the list was not retained. Also, the District's stewardship list included only temporary tag numbers for multiple items. Further, some items located on the District's premises were not tagged or otherwise specifically identified as district property.

The District did not maintain complete and accurate capital assets and stewardship lists, and did not always identify items as district property to protect them from loss or theft.

The District did not follow the *Arizona Administrative Code* requirements when it disposed of surplus materials. Specifically, the District did not advertise the sales auction and did not ensure that for items purchased by district employees, the employees were not involved in the purchase, disposal, maintenance, or preparation of the items for sale. Additionally, the District did not prepare authorization forms until after assets were disposed of. Finally, the District did not reconcile capital expenditures to items added to the list annually and did not prepare detailed instructions for performing its physical inventory.

## Recommendations

The following procedures can help the District strengthen controls over its assets and ensure that its capital assets and stewardship lists are accurate and complete:

- Prepare and maintain a detailed capital assets list that includes all equipment and vehicles with unit costs of \$5,000 or more, or the District's capitalization threshold if less than \$5,000, and useful lives of 1 year or more, and all land, buildings, and related improvements of \$5,000 or more.
- Maintain a stewardship list that includes items costing between \$1,000 and \$5,000.
- Record capital assets at actual costs, including ancillary charges such as sales tax, delivery, installation, and assembly. If the District is unable to record assets at actual costs, it may obtain estimated historical costs from vendor catalogs, price lists, appraisals, and Governing Board meeting minutes.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe information that should appear on the capital assets and stewardships lists.

Instructions for documenting capital assets cost information are included in USFR pages VI-E-3 through 5.

The form on USFR page VI-E-13 may be used to document the reconciliation of capital asset additions to capital expenditures.

- Retain cost documentation such as purchase orders, receiving reports, and vendor invoices to support information recorded on the capital assets list.
- Affix a permanent tag with an identifying number to each item costing \$1,000 or more, or specifically identify the asset by some other means, such as a serial number. Tags should be prenumbered, numerically controlled, and issued sequentially.
- Follow the requirements of *Arizona Administrative Code* R7-2-1131(C) when disposing of surplus property.
- Prepare a Request for Authorization to Dispose of Equipment form or similar form for all disposals. The form should be prepared by the principal or individual responsible for the physical control of the property and should be approved by the Governing Board or authorized designee.
- Continually update the capital assets list or track current year capital additions and deletions during the year and update the list annually.
- Reconcile items added to the capital assets list each fiscal year to capital expenditures by fund, and make all necessary corrections.
- Prepare written instructions that clearly indicate the procedures for taking the physical inventory and retain these instructions, along with inventory sheets and other documentation related to the physical inventory.
- Reconcile the physical inventory results with the capital assets and stewardship lists.

## The District's controls over cash receipts and bank accounts should be strengthened

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

The District receives cash from various sources, including student activities and food service sales, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash and ensure that cash is promptly and accurately recorded and deposited in bank accounts. However, the District did not have strong controls over its cash receipts and bank accounts. Specifically, the District did not always deposit miscellaneous, food service, and student activities cash receipts in a timely manner. It also did not remit

monies in the Food Service Fund and Miscellaneous Receipts clearing bank accounts to the County Treasurer monthly. Additionally, the balance in the District's Food Service and M&O Fund revolving bank accounts exceeded the allowable amounts. Also, the District did not reconcile 7 of its 12 bank accounts at June 30, 2006, and did not always resolve differences when bank reconciliations were prepared.

Further, the District holds student activities monies raised through students' efforts for safekeeping and has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. However, the District did not fulfill its fiduciary responsibility since cash collection reports were not always approved by the student activities treasurer and purchase orders were not always prepared prior to making purchases with student activities monies. In addition, student activities club balances were not always reconciled to the student activities general ledger balance monthly. Finally, the District did not submit a report of cash receipts, disbursements, transfers, and cash balances for the Student Activities Fund to the Governing Board monthly.

## Recommendations

To strengthen controls over cash receipts and bank accounts, the District should:

- Deposit all cash receipts daily, if significant, or at least weekly into the appropriate bank accounts.
- Remit monies deposited in the clearing bank accounts to the County Treasurer weekly, or at least monthly.
- Maintain amounts that do not exceed \$5,000 and \$500 in the M&O Fund and Food Service Fund revolving bank accounts, respectively, as authorized by statute.
- Prepare accurate monthly bank reconciliations for all bank accounts to reconcile bank and checkbook balances. Resolve all differences and make appropriate corrections.
- Ensure cash collection reports for student activities monies received are signed by the sponsor and the student activities treasurer to indicate approval.
- Prepare student activities purchase requisitions and purchase orders prior to making purchases.
- Reconcile the student activities general ledger balance to individual student activities club balances monthly, and make all necessary corrections.
- Submit a monthly report of student activities cash receipts, disbursements, transfers, and cash balances to the Governing Board.

Bank reconciliation procedures are outlined on USFR page VI-C-6.

## The District should maintain accurate student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective.

The District did not always record partial-day attendance correctly, and as a result, may not have received the proper amount of funding.

Specifically, the District did not always calculate partial-day attendance for kindergarten, junior high, and high school students correctly and did not maintain documentation to support partial-day attendance. In addition, entry forms did not always include the students' entry dates, and withdrawal dates recorded on withdrawal forms did not always agree with the dates recorded in the District's computerized attendance system. Also, the District did not indicate when student entry dates were recorded in the computerized attendance system and did not always enter student withdrawals into the computerized attendance system within 5 working days.

## Recommendations

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

To help ensure that the District receives the correct amount of state and local funding, the District should record and report partial-day attendance in accordance with ADE's *Instructions for Required Reports* and maintain documentation, such as sign-in/out logs, to support partial-day attendance reported to ADE. In addition, the District should retain accurate documentation to support membership and absence data reported to ADE, including accurate entry and withdrawal forms. The entry and withdrawal forms should include the entry or withdrawal date, date prepared, and the date the entry or withdrawal was entered into the District's computerized attendance system, which must be within 5 working days of the actual date of entry or withdrawal.

## The District's financial information should be accurately maintained and reported

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, the District should ensure that its accounting records are accurate and complete, and that transactions are properly authorized and recorded. However, the District did not fully accomplish this objective.

The District did not ensure the accuracy of its cash balances since its records were not reconciled to the County Treasurer's records.

Specifically, the District did not always classify revenue transactions in accordance with the USFR Chart of Accounts. In addition, the District did not reconcile its records of cash balances to the County Treasurer's records. Also, the District adopted its Classroom Site Fund performance pay plan more than 4 months after the statutory deadline. Finally, the District did not always accurately record journal entry dates in the accounting records and did not accurately carry forward all prior-year's ending cash balances.

## Recommendations

The following procedures can help the District record and report accurate financial information:

- Record all revenue transactions in accordance with the USFR Chart of Accounts.
- Reconcile the District's records of cash balances to the County Treasurer's records at least monthly, investigate all differences promptly, and make all appropriate corrections.
- Prepare and submit its Classroom Site Fund performance pay plan to ADE by December 31 of each year.
- For journal entries that correct or adjust a previous transaction, enter the date the journal entry was made into the accounting records and document the date of the original transaction on the supporting documentation.
- Carry forward the ending cash balances for each fund to the current year's accounting records.

USFR pages VI-B-8 through 10 provide guidance for reconciling the District's records of cash balances to those of the County Treasurer.